

# socialist standard

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Journal of The Socialist Party of Great Britain - Companion Party of the World Socialist Movement

## Lords of Creation?

**Banks' pranks and currency cranks**



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# Socialist Standard

OCTOBER 2012

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# Introducing The Socialist Party

The Socialist Party is like no other political party in Britain. It is made up of people who have joined together because we want to get rid of the profit system and establish real socialism. Our aim is to persuade others to become socialist and act for themselves, organising democratically and without leaders, to bring about the kind of society that we are advocating in this journal. We are solely concerned with building a movement of socialists for socialism. We are not a reformist party with a programme of policies to patch up capitalism.

We use every possible opportunity to make

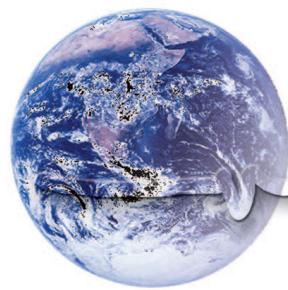
new socialists. We publish pamphlets and books, as well as CDs, DVDs and various other informative material. We also give talks and take part in debates; attend rallies, meetings and demos; run educational conferences; host internet discussion forums, make films presenting our ideas, and contest elections when practical. Socialist literature is available in Arabic, Bengali, Dutch, Esperanto, French, German, Italian, Polish, Spanish, Swedish and Turkish as well as English.

The more of you who join the Socialist Party the more we will be able to get our ideas across, the more experiences we

will be able to draw on and greater will be the new ideas for building the movement which you will be able to bring us.

The Socialist Party is an organisation of equals. There is no leader and there are no followers. So, if you are going to join we want you to be sure that you agree fully with what we stand for and that we are satisfied that you understand the case for socialism.

**If you would like more details about The Socialist Party, complete and return the form on page 23.**



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OCTOBER 2012

## Editorial

### Crunch time for credit creationists

SINCE THE Credit Crunch of 2008 and the accompanying depression, a flood of ideas has appeared on the internet and in discussion forums of all kinds claiming that, like a stage magician, high-street banks have been creating credit, money or even wealth out of nothing. This, it is claimed, has led to the continuous enrichment of fat-cat bankers at the expense of everyone else. Anarchists, conspiracy theorists, reformists, academics, professional economists and those simply looking for someone to blame for the economic collapse have all taken up the idea and elaborated it into a number of more-or-less confused theories about the way banks operate. According to one such theory, bankers were guilty of pursuing a lucrative but unsustainable policy of 'credit creation' in the knowledge that when the crunch inevitably came they would be seen as 'too big to fail' and governments would bail them out. According to many, 'credit creation' by banks is not just the cause of the banking crisis, but the origin of the current slump in the economy as well. Others, taking a wider view, argue that it is the cause of longer-term, unsustainable growth.

Whatever their differences, all these theorists believe that regulation of the banking system and the suppression of 'credit creation' will restore the good times we experienced before the sudden catastrophic plunge into rising unemployment, forgetting in their enthusiasm that those times were far from good for a great number of working people. Most believe that it will restore control of

the economy, overlooking the fact that the anarchy of the market has never submitted itself to control by any agency.

That such ideas should take hold now is perhaps not surprising: similar ideas arose and became popular in the years following the last great financial crisis: the stock market crash of 1929. They provide an easy but deceptive explanation of what has caused the current chaos in the economy, and suggest an easy remedy. They also point the finger of blame at the hated bankers. But where do they take us - really? By locating the cause of our economic and social ills in a relatively superficial facet of the capitalist economy - the activities of the banking system - they fail to address the real source of our problem, which lies deep in the capitalist system itself. They take us, yet again, down the futile road to reformism. No regulation of banking activity can possibly remove the exploitative nature of capitalism's system of wage labour or eliminate the conflicts on which the system rests. While capitalism exists, the satisfaction of human need can never be the aim of productive activity. Nor can any progress be made to eliminate the system's huge differences in wealth or provide social fulfilment for the vast majority of humanity. Credit creation theories can only provide us with more of the same. They are, at most, another diversion from the urgent need to replace the capitalist system with a more genuinely social, free and fulfilling society.

## Down on the pharma

THE FLU season is upon us again and readers will be delighted to hear that swine flu has not been idle. Tests have been taking place after a woman died last month from swine flu contracted at a country fair in Ohio, and three more cases were reported from Minnesota. The flu strain, H1N2, is derived from the 2009 H1N1 virus, is air-borne and carries the pandemic M gene. All victims had prolonged contact with pigs, however a different strain, H3N2, has caused 296 infections across 10 US states since July this year (<http://www.cdc.gov/flu/spotlights/h1n2v-cases-mn.htm>). The message at present is that people at high risk should stay away from pigs, state fairs or Korea, where the H1N2 strain is said to be a 'triple reassortant' virus in that it is a mix of avian, swine and human flu (<http://www.nature.com/news/need-for-flu-surveillance-reiterated-1.11382>).

Scientists are being cautious, obviously. Nobody is going to cry wolf this time, after they got the blame for the huge panic in 2009. Although there was a swine flu pandemic on that occasion it was nothing like the civilisation-ending apocalypse the excitable media had led everyone to believe.

The Centre for Disease Control in Atlanta, which publishes regular information on pandemic threats, is part of a global body of research institutions which, for obvious reasons, would be required almost exactly as-is in a socialist society. Nobody can possibly question the value of what such institutions do. Even creationists, who claim not to believe in evolution, rush fast enough for their annual vaccinations and understand well enough the need for them. We humans are locked in an arms race with microbes and only the most vigilant monitoring stands between us and some disaster of truly biblical proportions.

Other threats, however, are more debatable. Many of the scientists working on the H1N1 virus in 2009 objected to the research being published, for fear that terrorists could use the work to create a synthetic weapon. After 9/11 and a brief wave of anthrax letter-bombs the USA took this threat very seriously, and set up the Biowatch programme, which consisted of networks of sensors in urban areas including underground stations, designed to spot attempts to poison the public (*New Scientist*, 15 September). Ten years on and Biowatch has produced a null result, which 'proves' to its supporters that it has worked. This is like the old joke that an elephant-repellant spray must be working if you can't see any elephants. Detractors however point to the billion dollar bill and the fact that in the same decade there has not been a single biological terrorism attack anywhere in the world. Given the clumsy, low-tech efforts of many would-be bombers in the past, perhaps the threat of such people managing to develop a bioweapon has indeed been overstated.

But what is one to make of the fact that a very real and present threat, one which everybody knows about, is actually being increasingly ignored? Hospitals are riddled with MRSA and c. Diff. so that it can be more dangerous to go to hospital than stay at home. 60 percent of infectious disease specialists report encountering infections untreatable by any antibiotic. Just when antibiotic resistance is becoming a world-wide problem, it turns out that drug companies are pulling out of antibiotic

research ('NIH superbug outbreak highlights lack of new antibiotics', *Washington Post*, 25 August). Why? The answer is revealing.

In the first place, the antibiotic honeymoon is over. Like peak oil, we've hit peak bio, after which every development is harder and more expensive. It is all about the return on investment. When the field lay wide open in the 1940s and there was plenty of claim to stake and patents to be had, it was a bonanza. Now the well is dry, but unlike oil there is no way to wean humans off the need for antibiotics without seeing a return of the bubonic plague and other horrors. But drug companies are businesses which worry about profit, not plagues, so they are doing the sensible thing and pulling the plug on antibiotic research. You can't argue the logic when you can make more money out of an erectile dysfunction drug than out of antibiotics. Of the 12 largest pharmaceutical companies only 4 are still doing any research. The largest, Pfizer, has laid off 1200 workers and closed its antibiotic research centre in Connecticut and moved to Shanghai and out of antibiotic research altogether.

Alternatives to antibiotics are, like alternatives to oil, scarcely credible at present. The widely-mooted idea of engineering viruses to eat bacterial pathogens is still some way off, with the first clinical trial in Western Europe only taking place in 2009. Bacteriophages are hard to make, because unlike antibiotics they are not one-size-fits-all. Each pathogen strain requires a different phage, and when a pandemic may present multiple strains simultaneously this is an obvious disadvantage. They are also hard to store, and of course each one has to go

through independent regulatory hurdles before being approved for use. Given the increased expense of development plus the tightly restricted potential for patent exploitation, this is likely to make phage research even more unattractive to big pharma than antibiotics. In the event of a pandemic, phage research and production may very well be too slow and cumbersome to respond.

Antibiotics too are

facing even more severe regulatory hurdles because of the scare surrounding the antibiotic Ketek, which led to a number of deaths in 2006. With lawyers circling hungrily, no drug regulator is taking any chances. At a time when new drugs are becoming ever more vital, regulators are stamping on the brakes.

'It's a case of evolution outrunning capitalism,' says the *Washington Post* report. But it's not a case of capitalism somehow failing to keep up with evolution, as if the two are locked in mortal combat. While the money was in antibiotics, capitalism delivered. Now it isn't, capitalism has simply lost interest in the matter. The fact that the human race could potentially be decimated doesn't enter into it.

This is one of the worst indictments of capitalism that it's possible to make, its absolute defiance of common sense and the interests of the human species it supposedly serves. When science, logic and self-preservation all indicate one road, and money indicates the other, capitalism doesn't think twice. People who congratulate capitalism for its competitive drive to produce innovation should reflect on the fact that no matter how much ingenuity it inspires in humans desperate to pay their rent, it stands capable at any moment of making the wrong decision just when the consequences could be fatal.



Dear Editors,  
I greatly enjoyed the article on Billy Bragg in the September *Socialist Standard*. By anyone's standards, Billy is a great songwriter (if not a great singer!), but it is true to say that he has always been much clearer about what he is "against" than what he is "for."

Being of a certain age, I was greatly enamoured of much of the post-punk scene of the early '80s, of which the Gang of Four (also mentioned in the article) were a part. I'm not sure if they quite merit the label "Marxist", though, at least not as we would understand it. Also, although they certainly had their moments, their po-faced brand of "feminism" could be a little tiresome, if not patronising - when the previously all-male band appointed a female bass-player they then announced to the world that they were now "one woman and three token men!"

Post-punk had pretty much run its course by the time of the miners' strike, but the article did recall to mind a time when the Radio 1 playlist was occasionally troubled by SWP agit-poppers the Redskins (yes, really!), and also possibly one of the most subversive hit singles ever, the Style Council's "Walls Come Tumbling Down." From its initial scream of "You don't have to take this crap" to its breathy female chorus of "Governments crack and systems fall/ 'Cos unity is powerful", Bragg's fellow Red Wedgers brought something close to a genuine socialist message into the Top 10.

Those were the days!  
**Shane Roberts, Bristol.**

## Debt slaves or wage slaves?

David Graeber replies to our review of his book on *Debt* in last month's issue



**David Graeber**

**Dear editors:**  
You may be surprised to know I have read *Capital*, and am familiar with the concept of primitive/original accumulation. I might suggest it is the reviewer, rather, who might wish to expand his reading list, since he is evidently unfamiliar with that strain of the Marxian tradition that has most informed my analysis of such matters: the "autonomist" or "post-workerist" strain that runs through Tronti to Cleaver to the Midnight Notes collective, Federici, Caffentzis, and de Angelis (a very different

one from the more familiar Negri strain). In that tradition, "primitive accumulation" is not treated as a one-time thing that somehow teleologically prepared the way for capitalism, but rather as part of an ongoing process of the enclosure of different sorts of commons (and the creation of various forms of capitalist commons, like, currently, the US military) that has marked capitalism's history from beginning to - hopefully its rapidly approaching - end. I actually cite my sources here in a footnote the reviewer seems to have missed. In fact he doesn't seem to notice that my entire analysis of post-war economic cycles is based in this tradition.

What I was mainly trying to address in the section on capitalism is a question that to my knowledge no Marxist analysis has really been able to resolve: why, if capitalism is a system based on factories and free wage labor, did most of the financial institutions that we associate with it - stocks, bonds, futures trading, semi-private central banking systems, and so on - actually arise in the 17th century, long before either factories or (any significant amount of) free wage labor made an appearance. The whole idea of "merchant capitalism" which is supposed to characterize the period from roughly 1500 to 1750 (or even 1800 in most of Europe) has always been a puzzle. If capitalism is a system based on wage labor, then it wasn't capitalism at all. But if so most bourgeois revolutions happened before capitalism had even appeared! If merchant capitalism is capitalism, then capitalism does not have to be based on wage labor, and certainly not free wage labor, at all. Claiming that merchant capitalism was capitalism because European elites were somehow trying to create a system that didn't exist and there is no evidence they were even capable of imagining, seems absurd. The obvious answer is that capitalism is not in fact necessarily based on free wage labor contracts. Marx was, as I note in the book, effectively saying "well, let's take a best case scenario, and imagine workers are in no sense constrained; I can show the system would still lead to impoverishment and self-destruction." He wasn't saying that the assumptions of the political economists were empirically true. He was just allowing them for the sake of argument. As I note many seem to have forgotten the "as if" quality of his analysis.

I find it genuinely odd that I get so many reviews that accuse me of ignorance of even the basic ABCs of

Marxism, while at the same time, systematically ignore everything I actually say about Marx! Granted, the book is meant for a wide audience, and therefore avoids scholarly debates of all sorts, Marxist or otherwise. But it's all there in the footnotes. And I do talk about Marx in the text.

As for the reviewer's final claims that we are primarily wage slaves not debt peons: how does he know this? Because the secret to our 21st century situation lies in the correct interpretation of 19th century texts? That's silly. Systems change. I mean, it might be true, but it's a matter to be empirically established. A far larger percentage of Wall Street's profits is now derived from the financial sector than from industry or commerce - that is, from the exploitation of wage laborers. Where does that profit really come from? It would be very interesting to know what percent of the average (say) American's income is now directly expropriated by the FIRE [Finance, Insurance, Real Estate] sector, compared to what might be said to be extracted indirectly, through the wage. But the research simply hasn't been done. Nor will it be if we can't open up our minds a little and treat Marx's legacy as a living tradition. It's possible that the system is already starting to turn into something else. Or maybe it isn't. Let's figure it out rather than just shouting doctrine at one another.

### Reply:

- As capitalism continues, money-commodity relations are certainly spreading into yet further fields of human activity. However, whether this can be usefully seen as a continuation of the primitive accumulation of capital is another matter. Marx introduced the concept of original (generally translated as "primitive") accumulation to answer the question of how and from where was the capital to launch the industrial revolution accumulated. Once started, as it had been by the end of the 18<sup>th</sup> century, capital accumulation became self-generating, out of the surplus value extracted from wage workers. This said, although capitalism in the form of the world market dominates the whole world, the capital/wage-labour relationship is by no means universal. It is still spreading (being spread by the state) in such places as China and India as peasants are driven off the land and obliged to work for wages in factories. So, in this respect, one of the features of

**continued page 16**

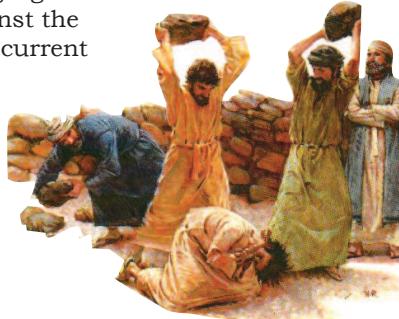
## The Fear of God

COMMUNICATING WITH, and tending to the whims of the gods has always been a specialised business. From the earliest religious beliefs any human behaviour that might offend the deities and bring down their wrath on the whole community had to be guarded against. The task of interpreting the god's words and satisfying their needs has always been entrusted to an elite caste of priests, oracles or holy men who jealously guarded their power and mysterious rites. And as gods have come and gone over the last few thousand years nothing much has changed in this respect.

The hierarchy of the Catholic Church still try to maintain an air of mystery with their absurd rituals, robes, mitres and use of incense etc. Until recently the widespread use of Latin, too, helped to bamboozle their followers. Until the 1960s it was used for all documents published by the Vatican.

The language of the Roman Church is Latin. It is therefore forbidden to sing anything whatever in the vernacular in solemn liturgical functions' said Pope Pius X in 1903. And Pius XII declared 'The use of the Latin language affords at once an imposing sign of unity and an effective safeguard against the corruption of true doctrine'. Now the current Pope, worried about the decline of religious humbug and mumbo-jumbo amongst the clergy wants to bring it back.

This is just a harmless pantomime though compared to the bizarre and rigorously enforced blasphemy laws that are used to preserve religious authority in Islam,



particularly in Pakistan. Can you imagine what would happen if a TV series like 'Father Ted' were to be made about a group of bumbling mullahs? Unfortunately the Islamic equivalents of Fathers Ted, Dougal and Jack have never been very funny, and can be terrifyingly dangerous.

As this article is being prepared Rimsha Masih, the 14-year old girl who suffers from Down's syndrome and was beaten up and imprisoned after being falsely accused by a local mullah of burning pages from the Koran, has finally been released after bail of one million rupees (about £6,200) was raised.

A Christian couple were sentenced to 25 years imprisonment after being accused of touching a Koran with unwashed hands. And a doctor in Hyderabad who threw away the visiting card of a pharmaceutical salesman found himself in serious trouble. The word Muhammad, part of the salesman's name, was printed on the card (*Guardian* online, 19 August and 6 September).

But it's not just the courts and mullahs who are terrified of blasphemers. In two separate incidents in Pakistan in 2011 Salman Taseer and Shahbaz Bhatti were gunned down in the streets because they spoke out in favour of reforming the blasphemy laws. And between 1990 and 2010 in Pakistan, in addition to formal convictions, there were at least 34 extrajudicial killings of people accused of blasphemy (*Guardian* 5 September).

And it's not only in Pakistan where Allah strikes fear in the hearts of his followers. Here, Channel 4 has cited security concerns as the reason for having to cancel a rescreening of its documentary 'Islam: The Untold Story' which claimed there was little written contemporary evidence about the origin of the religion, and attracted over 1,000 complaints from outraged believers.

Why do the followers of such powerful gods feel so insecure?

**NW**

## Brief Reports

HOUSING ACTION groups have criticised the new law against squatting this week, saying that it would lead to more homeless people living on the street. But Justice Minister Crispin Blunt defended the law, pointing out that homelessness was at the lowest level for 28 years: 'Two harsh winters have seen to that. Another big freeze this winter and there won't be any park bench winos dossers left alive at all.' He added that the government was spending £164m to bring 10,000 empty homes back into use: 'Put bars on the windows and one-way locks on the doors and bingo, prison overcrowding also solved. Ker-ching.'

SOUTH AFRICAN prosecutors have provisionally dropped murder charges against 270 miners whose colleagues were shot dead by police. The State Prosecutor admitted in a statement that it was patently absurd to shoot people and then charge their friends with causing their murder: 'We'll prosecute the dead miners for committing suicide instead. They don't have a leg to stand on as they're dead.'

GOTTFRID WARG, one of the founders of the file-sharing website Pirate Bay, has been arrested in Phnom Penh after an international warrant was issued against him. The website immediately issued a press statement saying that this would not affect operations

as there were already proxy copies of Warg on 78 mirror sites in six continents.

HOLLYWOOD ACTORS, directors and scriptwriters went on the rampage last week, burning down a number of cinemas, phone booths and magazine stands in protest at the anti-Islamic film 'Innocence of Muslims'. Speaking on behalf of the film industry, Steven Spielberg said: 'Hollywood is united in deep disgust at this film, with its shoddy production values, acting, dubbing, backgrounds, plot and script. This is not the American way. If we decide to piss Muslims off we'll do it with a hundred million budget and Mel Gibson.'

BRITISH NEWSPAPERS rushed to condemn the publication by a French magazine of topless images of Kate Middleton as being a 'grotesque and outrageous invasion of privacy'. The Daily Mail fulminated in a front page editorial: 'We were offered those pictures too, but honesty, integrity and a profound respect for our wonderful Royals made us turn them down.' A spokesman for the French magazine Closer retorted: 'Bolleaux to the Anglais Press. They do not care about privacy and decency, they are merely shitting les briques a cause du Leveson Enquiry and are furieux that nous avons le scoop instead.'



## The Bank Charter Act

The Bank Charter Act of 1844 is back in the news. An article in the *Guardian* (17 July) by Deborah Orr discussed its terms and stated that it "removed from bankers their licence to print money." It did remove the right of banks other than the Bank of England to issue their own bank notes, but gradually rather than immediately. Banks which had been issuing notes until 1844 were allowed to continue until they merged or were taken over, but not to increase the amount they had been issuing. Some banks continued to issue notes for the rest of the 19<sup>th</sup> century, the last continuing till 1921.

According to the wikipedia entry, "The Act exempted demand deposits from the legal requirement of a 100-percent reserve which it did demand with respect to the issuance of paper money." The source for this claim is given as the Ludwig von Mises Institute, as if this could be regarded as a source of reliable information.

This claim is wrong on two counts. The Act does not mention "demand deposits" at all, let alone exempt them from anything. Nor did it require banks to hold an amount of cash (gold or Bank of England notes) in their vaults equal to the face-value of the notes they were allowed to continue to issue.

The basic aim of the Act was to regulate the issue of paper currency which its promoters thought would lead to inflation if too much were issued. This was based on the theories of the Currency School, but was challenged by the Banking School who argued that, as long as bank notes were convertible on demand into a fixed amount of gold, this would not happen. Marx agreed and a whole chapter of Volume 3 of *Capital* is devoted, with contributions from Engels, to "The Currency Principle and the English Bank Legislation of 1844."

The Act was not concerned whether or not banks backed up their notes with an equivalent amount of cash in their vaults. How much cash to hold was left to banks' judgement. Knowing that only a small percentage of the notes were likely to be presented at any one time for payment in cash, the banks would normally only keep that amount in their vaults.

Giving someone a wad of notes was just one way in which banks could then make a loan. Another was to grant the borrower an overdraft, which is presumably what the Mises Institute mean by "demand deposits". But these did not need to be backed by a 100-percent reserve" either. The amount of deposits that a bank would need to retain as cash would depend, once again, on the bank's experience of how much their clients were likely to withdraw in this form. That you don't have to retain as cash all the money deposited is the basic principle of banking. To have required all loans to be covered by an equivalent amount of cash in the banks' vaults would have turned banks into safety-deposits and rendered all lending by them impossible. The promoters of the 1844 Act did base it on a fallacy but they weren't that stupid.

The Act didn't even require the Bank of England to cover all the notes it issued by an equivalent amount of gold in its vaults. It was authorised to issue £14 million, known as the "fiduciary issue", without this. This proved not enough during financial panics and the Act had to be suspended in those of 1847, 1857 and 1866, as Marx chronicled in detail in Volume 3 of *Capital*. His conclusion is as valid today as it was then:

"Ignorant and confused bank laws, such as those of 1844-5, may intensify the monetary crisis. But no bank legislation

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POWER SAWS (and other power tools) are widely used by people who work with wood, whether in employment, as students or at home as a hobby. They are very powerful and also very dangerous machines, responsible for tens of thousands of hand injuries a year in the US alone. Especially at risk are youngsters new to the workplace. It is estimated that 4,000 cases a year require the amputation of mangled fingers, or sometimes the whole hand. The nervous and circulatory systems may suffer permanent damage.

## Stopping the saw

In 1999 a physicist and amateur woodworker by the name of Stephen Gass invented a safety device designed to stop a saw blade within milliseconds of penetrating human flesh, before the cut goes any deeper than 3 millimetres. There is still pain, and plenty of blood, but no serious injury. The sudden drop in the electrical signal upon contact triggers the release of a spring, pushing a piece of aluminum or plastic into the teeth of the blade to stop it spinning.

In 2000 Gass displayed a prototype of his device under the brand name SawStop at the International Woodworking Machinery & Furniture Supply Fair in Atlanta, Georgia. His demonstrations of how it worked, using a hot dog in place of a human finger, attracted considerable attention.

Next Gass registered a series of patents on various versions of SawStop and tried to persuade the big power tool companies to license them. He was disappointed by their reluctance to do so. They offered various excuses, some more convincing than others. Their main objections – surprise, surprise! – were to do with money. Retooling assembly lines would cost them tens of millions of dollars. Firms would have to charge higher prices for products incorporating the device, and that would weaken their competitive position. They did not believe that most customers would willingly pay more for safety.

## A get-rich scheme

In April 2003 Gass petitioned the Consumer Producer Safety Commission to make an emergency brake obligatory for all table power saws. While he framed his case in terms of ethics and the public interest, his opponents viewed the petition as a get-rich scheme. He had comprehensively patented the SawStop concept: any competing devices based on the same concept would infringe his patents. And no one had any alternative concept. Gass was claiming the rights of a monopolist. If he had his way, every table saw would have to be equipped with his device and he would receive license fees amounting to 8% of the wholesale cost of all the saws sold. If preventing avoidable injuries was his overriding concern, why had he not placed his patents in the public domain?



In 2005 Gass and his associates established SawStop as a company – “the world’s leading maker of safe 10-inch table saws” ([www.sawstop.com](http://www.sawstop.com)). It has found a market niche, but the makers of unsafe saws remain in business and hands continue to be mangled.

This story shows how the workings of capitalism and its patents system can impede a socially useful technological innovation, delaying its introduction by several years and restricting its scope. The outcome might have been worse. If one of the major power tool companies had bought up SawStop or its patents, the new safety device could have been suppressed altogether for decades (see “Patents: capitalism versus technological advance” in *Socialist Standard*, February 2007).

## Safety doesn't sell

The story also raises the issue of the relative priority given to safety in designing not only power tools but many other products. According to conventional economics, it is consumers who ultimately make such decisions through the use they choose to make of their (very unequal) purchasing power. In fact, producer firms actively shape consumer behavior through manipulative advertising.

Although marketers admit that safety considerations may influence some consumers, on the whole they are guided by the maxim that “safety doesn't sell”. Young people in particular are disinclined to think about safety, even though they tend to be the group at greatest risk, whether as users of power tools or as drivers of cars.

Keen skiers, car racers or do-it-yourself enthusiasts may also prefer not to dwell upon the dangers to which their pastime exposes them.

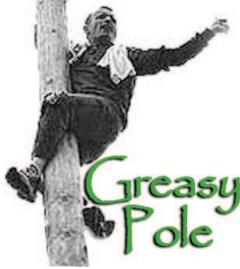
Perversely, they may turn away from safety-oriented advertising because it reminds them of those dangers. Or they may react to such advertising not by buying the safer product on offer but by giving up the dangerous activity altogether. Potential first-time buyers may be discouraged from even starting. These outcomes are not exactly what the advertiser was hoping to achieve!

A special situation arises when power tools, for example, are purchased not by hobbyists as consumer goods but by employers as capital equipment to be operated by hired labour. A few decent employers may

sincerely care about the safety of their workers, but in general capitalists seek to maximize profit. That means they will pay more for safety only insofar as they are forced to bear medical and other costs associated with injuries – through workers' compensation, for instance.

In a socialist society, producers will be motivated by an inner need to do the best they can for other members of the community, including those who are going to use the things they make. Safety will undoubtedly be one of their top priorities.

**Stefan**



# Who wants to pick this Bone?

GRATEFUL AS we are to our guardians in Westminster who labour mightily to protect and nurture us we should not overlook that they also have human needs. Like a flexibly regulated system of claiming for incurred expenses. Like meeting the demands of flamboyant media producers to expose themselves to the nation's reverential scrutiny. Like their need to relax the tensions of relentlessly legislating by giving way to laughter in the Chamber where their talents are displayed – laughter as a kind of therapy for them, side to side erupting in a booming, orgasmic release. Luckily there are in that august setting some who have a reputation for their skills in stimulating such pleasure. When any of these rise to their feet with the words "Thank you, Mister Speaker" they are not expressing gratitude for the opportunity to mouth yet another gabble of platitudes and evasions but are giving notice of the release to follow from their words. This is considered to be a useful, constructive way for Members of Parliament to spend their time.

## Pleasing The Wife

The constituency of Wellingborough, Rushden and Higham Ferrers in Northamptonshire is represented in the House of Commons by the Conservative Peter Bone, who can be relied on to entertain the Commons in the style to which they are accustomed by opening his contributions to their proceedings with mention of his wife: "This morning at the breakfast table Mrs. Bone was saying..." or perhaps "It would be a great help to my wife and the Bone household if..." Mysteriously, this reduces the MPs to frantic laughter, as Bone asks David Cameron to rule out any more contributions to a Eurozone bail-out or to agree that it is necessary to maintain the laws against blasphemy and blasphemous libel or to denounce gay marriage as "completely nuts" (a particular preoccupation of his; last month he strongly objected to Nick Clegg naming those with such views as "bigots"). Amid the hilarity David Cameron, perhaps wriggling on the hook in Prime Minister's Questions, is able to get his share of laughter by a smoothly suggestive reply: "A very big part of my life is spent trying to give pleasure to Mrs. Bone" or "I wish my wife was easy to please as Mrs. Bone".

From behind this screen of sickening drivel it may be difficult for Mrs. Bone to get herself noticed. She works as Mr. Bone's Executive Secretary (at a top-end £40,000 a year) in which she rates herself "a one-woman focus group" who "listens to people on the ground" (which seems to include only those who agree with her). Mrs. Bone has political ambitions of her own, which were disappointed when her application to stand as the Conservative candidate for election as the local Police Commissioner was rejected on the emphatic terms that she "did not display a sufficiently developed understanding of what the job would entail and did not have a sufficiently clear vision of what she might do if elected" (requirements which might rule out her husband as well as a whole clutch of MPs). But the disappointed candidate was not put off; this, she sulked, was "bully-boy behaviour... the party grandes wanted to get at Peter through me". It might have been expected that the next step for her would be to resign from this collection of bullying exponents of the tactical underhand were it not that capitalist politics, with its competing ambitions and need to deny reality, does not operate with such consistent honesty.

## Speeches

And "consistent" is not a word to be readily associated with this pair of wedded Tories. Peter Bone's first experience of trying to be an MP was encouraging for him when, standing in Islwyn against the hapless Labour leader Neil Kinnock, he



recorded the highest ever Tory vote there. However he did not come up to this promise in subsequent elections in Pudsey and Wellingborough because he lost to swings notably worse, for his party, than the national trend. In fact when, in 2005, he eventually won at Wellingborough it was by 687 votes - a swing of only 2.9 per cent when the national swing was 3.1 per cent. Perhaps there was a message in this about him personally and his voter-averse style (in 1995 the *Daily Mirror* condemned him as "the meanest boss in Britain" in response to him paying a 17 year-old trainee 87 pence an hour). In action in the Commons, he was rated as a prolific speaker but in case this gave the wrong impression he was one of three who, according to *The Times*, "boost their ratings on the internet by saying very little, very often" with an example of one contribution of only three short sentences which was about the postmaster of the tiny Northamptonshire civic parish of Little Irchester. He is on record as describing the NHS as something which "would not be out of place in Stalin's Russia" and for opposing regulations designed to give equal rights in goods and services to gay people. He could not have been surprised when, earlier this year, Tory MPs ejected him from the Executive of their mouthpiece, the 1922 Committee.

## Trafficking

In February he opened a Commons debate on human trafficking – among the cruellest, most ruthless of crimes estimated to generate \$82 billion a year, almost as much as arms dealing and drug smuggling. It is, in other words, typical of the capitalist system – savage and inhuman as it is driven by the all-dominant motive for profit and the abuse and waste of human life. It was inconsistent with this reality for Bone to offer the argument that an independent National Rapporteur – such as there is in Holland – would be more effective in keeping a check on the problem than the present slapdash system. Significantly he also supported his case on financial grounds: "...it would do all the things we want at a fraction of the cost". Peter Bone is one among many who claim an ability to manipulate a significant change in this horror. But in fact he is only likely to find a place in history as a feeble joker.

IVAN

# Fractional Reserve Banking Refuted

Since the financial crisis first erupted in the summer of 2007, there has been a renewed interest in what is now commonly called 'fractional reserve banking'. This is mainly from those who contend that it is the root cause of the problems besetting the world economy. But is this idea really plausible? Both logic and the available evidence would indicate not.

Fractional reserve banking (the idea that the banking system can lend out vast multiples of what has been deposited with it) is not a new theory. It is also – and perhaps more accurately – sometimes called 'credit creationism' as it assumes banks can create almost endless amounts of credit from what has been deposited with them by savers. Ever since the MacMillan Report into Finance and Industry in the UK in 1931 gave it credence, variants of this theory have been taught to students in universities and colleges across much of the world.

In truth, there are two versions of the theory – the initial crude one, and a more sophisticated version which on some readings isn't really credit creationism at all, even if it uses some of the same terminology. We will examine both versions, starting with the original, crude one.

## Magic money?

This version of the theory was the one put forward in the MacMillan Report itself and is based on a simplified 'one bank' model of the banking system. The MacMillan Committee assumed that this bank would hold a cash reserve of 10 per cent of their deposits to meet any likely withdrawals from customers (today the cash reserve held by banks is a lot less, usually 2-3 per cent). Into this bank a customer places a deposit of £1,000 in cash. Operating with the 10 per cent cash reserve, the bank would then be able to lend out £900 to another customer which is withdrawn by cheque before being returned to the bank as a new deposit. So in this way the initial £1,000 had grown to £1,900 (the initial £1,000 cash plus the cheque that had been deposited for £900 from the loan granted). This is a process the MacMillan Committee argued could then be repeated nine more times assuming the 10 per cent cash reserve, with the bank therefore lending out £900 to each of ten customers in total. It would lead to a situation after all these transactions had been completed whereby £10,000 in deposits was balanced by £1,000 in cash plus £9,000 in

loans owed by borrowers. So, as if by magic, an initial £1,000 deposit had become £10,000.

This type of credit creation theory has been put forward by many modern critics of capitalism (including Zeitgeist and some in and around the Occupy movement) who claim society is being enslaved by bankers and the 'debt-money' they



Quantitative easing for beginners

create. It is used to illustrate the view that banks have special powers to create wealth and that the banking system is inherently fraudulent and corrupt. This outlook also has its echoes on the political right, such as in the views of Representative Ron Paul in the US. Shorn of its overtly political implications, it gets an airing in some standard economics textbooks too. For instance, a typical textbook aimed at undergraduate university students like *An Introduction to Modern Economics* by Hardwick, Langmead and Khan describes a similar, crude credit creation process as if it were fact. Imagining a one-bank economy where the bank operates a 10 per cent cash reserve, with £10,000 in deposits and £1,000 of this in cash, they say:

'suppose now a customer deposits an extra £2,000 in cash . . . Notice now that the ratio of cash to deposits

is no longer 10%, but is now as high as 25% [i.e. £3,000 out of £12,000]. Given that the bank's desired cash ratio is 10% and that the bank wishes to maximize its profits [by making loans at interest], it will increase its total deposits to £30,000 so as to restore the desired ratio. The bank does this by granting new loans amounting to £18,000 . . . the cash deposit of £2,000 has led to an increase in loans and investments of £18,000 so that total deposits have risen by £20,000 – that is, by ten times the amount of the cash deposit'. (5<sup>th</sup> edition, pp.439-440).

In this way banks are allegedly able to magic up money they don't really have, by either the stroke of a pen or push of a button.

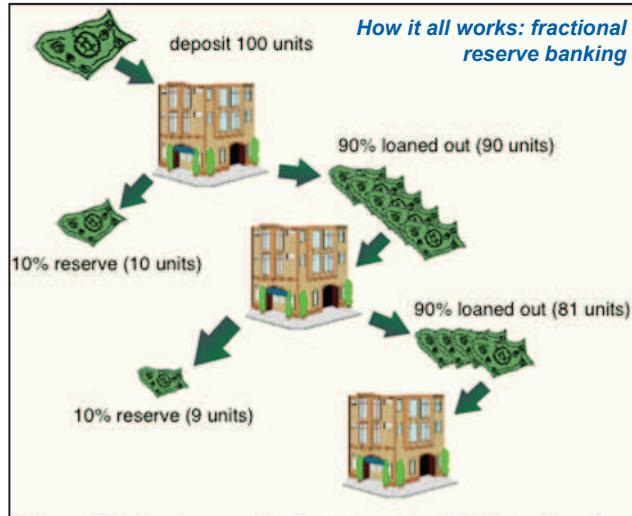
## Logic deficit

There are a number of reasons why this one-bank model of credit creation is flawed, both theoretically and empirically. The main ones are these:

- Just because a theory is explained or advocated in some economics textbook doesn't mean it carries any weight. Economists famously cannot agree amongst themselves and economics isn't called 'the dismal science' without reason. Conventional economics has consistently failed to explain all sorts of contemporary phenomena within the market economy (unemployment, recessions, inflation, etc) and there is no reason to suppose it has it right about banks and credit. Furthermore, as we shall see, most modern economics textbooks have moved away from the crude credit creationist views outlined above as they know they are intellectually indefensible. Why might this be so . . . ?

- The model assumes a certain cash reserve (10 per cent in the examples quoted, though a lower cash reserve makes the potential for banks to 'create credit' even greater). But it also assumes something else. It assumes that this cash reserve is never actually accessed by anyone in the entire series of transactions, and so is totally unrealistic. In other words, taking the example used by the MacMillan Committee, the

initial £1,000 cash is completely untouched throughout. This is interesting, because if credit creation can multiply £1,000 into £10,000 at a stroke of a pen, the equal but opposite effect would come into play if anyone actually withdrew any cash! It would only need one of the borrowers to access their new deposit by demanding cash rather than a



cheque to blow the model apart. So the model is not only unrealistic but logically flawed.

• The model also confuses the apparent 'creation' of credit or money with what is merely standard double-entry book-keeping. If someone withdrew £10,000 from their bank and lent it to a business associate with an account at the same bank, the total amount of deposits held by the bank would be unaffected – £10,000 would merely go out of one account and into another. However, if the bank, when acting as an intermediary, did the same thing (i.e. the person concerned left the £10,000 on deposit and then the bank took £10,000 from its deposits to lend to the businessman) then in this instance the bank deposits and loans recorded by the bank would have increased by £10,000. Yet the only difference is that the bank has lent the same amount of money itself. Nothing else has materially altered and the bank hasn't 'created' anything – the apparent difference is merely the product of the way balance-sheet records are kept.

• If banks could create vast multiples of credit from a given deposit base then no bank would ever go bust. If a borrower failed to repay a loan, they could merely write this off and create more credit from their deposit base to make another one. Or, more directly still, the credit 'created' in this way could be used to buy additional assets. Lehman Brothers, Bear Stearns, Northern

Rock, HBOS, Landsbanki and all the other banking disasters testify in a very practical way that this just doesn't happen in the real world.

• If banks could create vast multiples of credit from their deposit base in the way supposed, they would never have any financing issues and a need to seek any other sources of capital aside from the deposits they have from savers. Yet this is not the case. When Northern Rock imploded it had £113 billion of loans outstanding, but only £24 billion of this was backed by deposits i.e. less than a quarter. Did this mean the difference in these two figures was due to their ability to create credit over and above the £24 billion of deposits? No. The rest was financed from the money markets,

where banks, building societies, companies, governments, local authorities and other organisations buy and sell short-term loans to



**Banking disasters: Bear Stearns and Northern Rock**

finance their economic activities. When interest rates rose this put Northern Rock under pressure because the interest payments it was receiving on the loans and mortgages it had granted was barely covering what it had to pay in interest on the money markets to get the capital to lend out in the first place. And when the money markets started to seize up in late 2007, Northern Rock was doomed, having no more access to capital. Similarly, HBOS's deposits covered only 44 per cent of the loans on its books before the crisis, the rest being financed from the money markets – and with most of this being

short-term finance, it had a similarly disastrous result. Indeed, until the financial crisis broke the tendency within the banking sector had been for an ever greater proportion of banking capital to come from the money markets rather than deposits. This was because of a competitive drive to expand their capital so they could lend more and hence increase their revenue and profit. Until recent decades this was only ever done at the periphery of banking practice as to 'borrow short' (via short-term loans on the money markets) while 'lending long' (granting long-term loans and mortgages) was considered too risky.

• If banks really were able to increase purchasing power in the economy at the stroke of a pen or push of a button, there would be clear and observable consequences of this. For instance, many credit creation theorists have expected prices to rise alongside the expansion of bank credit, yet there is no observable correlation between the two. Prime Minister Margaret Thatcher gave up on this view in the mid 1980s when she realized the theory didn't match the facts. Furthermore, while so-called 'credit creationism' is as old as banking itself, persistently rising prices (that have been left



unchecked) have only been an economic phenomenon since the Second World War.

• If banks were able to flood the markets with credit it would, other things being equal, drive interest rates down, and this is the opposite of what banks want to happen. If this phenomenon were a reality, banks would be caught in a 'Catch 22' situation where near endless credit creation would push interest rates down towards zero. But the rates banks charge have invariably been very healthy (for them), even during the crisis.

• If banks can create vast multiples

of credit from the savings that have been deposited with them, then so could other financial intermediaries. Building societies and even credit unions could do it, as the same principles would apply. But nobody seriously suggests they can – if a credit union lent out more than had been deposited with it, it would go bankrupt (as, in reality, would a bank, the only difference being that a bank can also normally access the money markets for capital).

• The bankers themselves have explicitly stated that they cannot magically create credit in the way the theory supposes. For instance, Walter Leaf, Chairman of the Westminster Bank in the years leading up to the publication of the MacMillan Report was one of many who said so explicitly:

The banks can lend no more than they can borrow – in fact not nearly so much. If anyone in the deposit banking system can be called a ‘creator of credit’ it is the depositors; for the banks are strictly limited in their lending operations by the amount which the depositors think fit to leave with them’. (*Banking*, 1926, p.102)

Indeed, many of the signatories of the MacMillan Report in 1931 (mainly the bankers and economists) later repudiated the theory they helped popularize. These included Reginald McKenna, Chairman of the Midland Bank, and most significantly of all John Maynard Keynes, who was the main author of the Report. In his seminal *General Theory* in 1936 Keynes stated:

The notion that the creation of credit by the banking system allows investment to take place to which ‘no genuine saving’ corresponds can only be the result of isolating one of the consequences of the increased bank-credit to the exclusion of others’ (p.82)

In recent years the 2011 Vickers Report (the Independent Commission on Banking) has explicitly stated that banks are ‘financial intermediaries’ that ‘bring together savers and borrowers’, without giving any indication that banks can create vast quantities of credit out of what is deposited with them.

• Many who are critical of capitalism as an economic system take inspiration from Marx’s ideas and his analysis of the market economy, but Marx took the view that banks are financial intermediaries between savers and borrowers who don’t create purchasing power. ‘A bank represents on the one hand the centralization of money capital, of the lenders, and on the other hand

the centralization of the borrowers. It makes its profit in general by borrowing at lower rates than those at which it lends’ (*Capital*, Volume 3, p. 528). For Marx, wealth and purchasing power arise through production, not the sphere of circulation and exchange. Banking profit does not, in Marx’s view, arise mystically out of financial conjuring, but as a portion of the surplus value created when the working class of wage and salary earners is exploited.



This surplus value is then turned into industrial profit, ground rent, and banking interest.

In the light of all these arguments and the empirical evidence, it seems reasonable to conclude that the crude credit creationist viewpoint has little if anything going for it.

### Second theory

A recognition of this has led to the popularization of the second, and more sophisticated, version of the theory. This is the version that argues that even if the one-bank model of credit creation isn’t plausible, the banking system when considered as a whole can effectively do the same thing. This was the view for years elaborated in standard economics textbooks by the well-known American academic Paul Samuelson and is perhaps the version that is most common today.

Samuelson dismissed the argument that an individual bank could lend more than had been deposited with it as ‘false’ and went on:

‘According to these false explanations, the managers of an ordinary bank are able, by some use of their fountain pens, to lend several dollars for each dollar deposited with them. No wonder practical bankers see red when such power is attributed to them. They only wish they could do so. As every banker knows, he cannot invest money that he does not have; and money that he invests in buying a security or making a loan soon leaves his bank.’ (*Economics*, 5<sup>th</sup> edition, 1961, p.331)

The argument he put forward is that when someone deposits £1,000 into a bank when there is a 10 per cent cash reserve ratio, the bank

keeps £100 cash and lends out the other £900. This will then be spent by the borrower and will find its way back into the banking system more widely, which will then keep £90 of the £900 as a cash reserve and lend out the remaining £810, and so on. Eventually, after these deposit and loan circuits have been completed, this leads to a situation whereby the initial £1,000 deposit in a particular bank has multiplied to £10,000 across the banking system as a whole.

Although it is an obvious oversimplification, in some respects this theory is sound. The key issue though is that it is not an example of ‘credit creation’ at all. All this theory demonstrates is that money circulates and that for every loan that has been created, a deposit (that is greater than the subsequent loan) has also been made. In some ways it is little different to the concept underpinning the circulation of a bank note, whereby a £20 note can be used many times over a given period to facilitate transactions that, when aggregated, are many times the face value of the individual note.

### No special powers

Given this, socialists say that ‘fractional reserve banking’ or ‘credit creation’ are myths. The crude version of the theory is illogical and at variance with any serious knowledge of banking practice, while the watered-down version most commonly found in modern economics textbooks isn’t really a credit-creation theory at all and proves nothing beyond the accepted fact that accepted means of payment circulate within the economy. In reality, banks can only lend out what they have received in deposits (or borrowed on the money markets), making their profits by levying higher interest rates on the loans they grant than they pay depositors (or pay to the money markets).

There really is no mystery to this, and the idea that banks have special powers and can hold the rest of society to ransom is consequently unfounded and movements for banking reform misplaced. The real problem in society stems not from what banks do specifically, but from the way society is organized as a whole. In particular, from the fact that the vast majority of people do not own and control the planet’s resources and have to work at the behest of those who do – some of whom are indeed bankers . . . but most of whom are not.

**DAP**

# The Miracle of the Loaves and the Fishes

*Socialists are not above resorting to any source in support of an argument - including the Bible*

**V17.** And it came to pass at the sixth hour, when Jesus had spoken at length of the Edomites, and the Ephraimites, and the Hasmonites, and the Plasmonites, and the Sonderbites, and the Sunmenites, and the Malachites, and the Ammonites, and the Bakelites, and of many other wondrous things, that a question arose among the faithful: "Lord, what are we going to have for our tea?"

**V18.** The Lord replied thus: "Bring unto me your loaves and your fishes for safekeeping, that a repast may

wonder saying "That's not much is it?"

**V19.** Then He did address the gathering, bidding them form an orderly assembly. Thereupon turning first to one Jacob the Canaanite, who was at the head of the queue, He spake thus: "Take thee freely of my bread and my fishes, as though they were my very flesh, that thou may eat and be content, O Jacob of Canaan." And Jacob said "Thanks a lot, Lord."

**V20.** But as Jacob knelt to take up a portion whereof to dine, Jesus held aloft his arm saying "But wait, O Jacob, for see ye not that the sun is yet

simple robe that thou hast no folds wherein it may dwell, whereas mine comes with pockets." And Jacob replied, saying: "Hollowed be thy pockets, Lord. I shall place my faith and dinner therein."

**V21.** Then did Jesus approach the next one in line, one Ezekiel of Zin, and first he did give him of the loaves and the fishes whereof he had heretofore been furnished, and that he had just lent, and that he had then embraced once again back into his keeping. Then did he also address Ezekiel

Simeon of Simeon, and Gladius of Nubia, and Chief Running Deer of the far shores, until the whole multitude had done likewise.

**V23.** And Jesus spake to the multitude saying "Lo, this is a device I learned from the moneylenders at the temple, wherein by ineffable means known only to God the Father, loaves and fishes are created from the very air.

**V24.** "And I have this day performed this miracle before your very eyes. For yea, though my starting capital was but slender, have not each one of you received loaves and fishes by my hand, though ye be a great multitude?"

**V25.** And the people fell down in wonder, though they be sore famished by this time, and agreed that it was a miracle. Then on further consideration did they press upon the Lord to receive back what they had loaned on deposit, so that they may truly eat, thus creating an Almighty squeeze. But Jesus withdrew and implored them to desist, saying "Lord, forgive them, for they know not how finance works". Then were fists raised in ire, and the first credit crunch smote the Lord upon the eye, followed by several others, for verily did the multitude twig that they had been diddled.

**V26.** At the eleventh hour under cover of darkness, and most belaboured upon the body by the faithful, did Jesus hasten back to the temple moneylenders, and there did He kick over their tables in full wroth, saying "Don't even think you're getting a bonus."



What do you mean, pudding?

be prepared wherein all may share even unto the lowest of the flock." And the people did so, rendering to Him all that was in their possession and sparing nothing unto themselves. And the Lord looked down upon the host of bread they had collected, which numbered not more than five loaves, and the fishes, which were in number but two, and He spoke in

high, and that the hour of tea is not yet upon us? Wilt thou not tarry a while, that we may all partake communally as one people in God's mercy?" And Jacob said "Alright, Lord, I will. If you say so." Then Jesus said: "And wilt thou not also vouchsafe to me thy portion for keeping until the appointed hour?

For I see by thy

in these words, saying "O Ezekiel, mark you that it is not yet of the dinner hour, and yet I perceive that you are also lacking pockets. Therefore surrender unto me for safekeeping that which I bestow upon you, and I'll look after it for you as I did with Jacob."

**V22.** And Ezekiel did. And thus did Mary of Edom also follow the same wise counsel, and Rachel of Modom, and

**Pater Patricius**

**O**ne way in which the notion that banks can create credit out of thin air has got into circulation has been through the *Guardian*.

"Money from thin air" was the heading of an article by James Robertson published in 20 March 2009 in which he claimed that "commercial banks are allowed to create almost all the money we use. They create it out of thin air and put it into circulation in the form of profit-making loans. They credit those to their customers' accounts by a simple accounting procedure, and their customers spend the money into circulation."

That banks give loans cannot be denied – that's one of their functions – nor that those given a loan spend the money. That's not the point at issue, which is: Do the banks create this money out of thin air by a simple accounting procedure? Or are they transferring previously existing purchasing power? In other words, are they creating purchasing power that did not exist before? In asserting that they do, Robertson has some other questions to answer. Why do banks compete with each other to attract people's savings (i.e., money people don't want to spend for the time being)? What is the difference between a bank and a moneylender? Do moneylenders, pawnbrokers and loan sharks also create money out of thin air when they make a loan? If not, why not?

In an article by Richard Werner and Green Party MP (and then Party Leader) Caroline Lucas on 12 February this year the two asserted that:

*"banks simply pretend that borrowers have deposited the money they lend them, and thus create it out of nothing, when they credit their deposit accounts, adding to the money supply."*

When they make a loan, banks generally do open an account for the borrower to which the amount of the loan is credited, but it does not follow that this has been created "out of nothing". In fact, it has to come from what the bank has, either from outside depositors or from what they themselves borrow. Banks are essentially financial intermediaries which borrow money (depositing money in a bank is in effect lending it the money) from savers and lend it to investors (those who want money for some project). Their income comes from the rate of interest (if any) they pay those who lend them the money and the higher rate they charge those who borrow it from them. Bank profits are what is left after their expenses (buildings, computers, staff

costs, etc) have been paid out of this income.

In the built-up to the present crisis, according to an article to an article by Deborah Orr (14 July):

*"The big international banks manufactured money, using very simple raw materials. All they needed were computers and borrowers. Every time they made a loan, the banks simply typed the amount they were lending into their computer system, transferred it to their victim's account, and charged interest for the privilege."*

The fact that she herself described this as "the closest thing to alchemy that humanity ever contrived" ought to have alerted her that there was something wrong with this account.

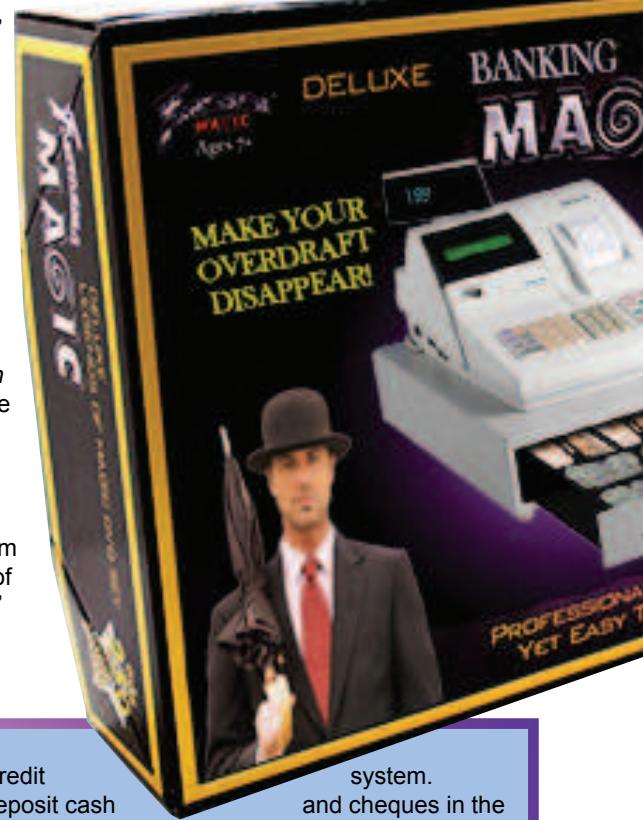
If the banks she referred to only needed computers and borrowers, how come some of them got into serious difficulty when the rate of interest at which they had been borrowing money on a short-term basis rose, squeezing their income since they were unable to raise the rate they charged borrowers? Clearly, they did need the money to lend as well as their computers.

Orr went on to give her support to a bank reform under which banks would be "lending from their capital, not 'lending' money they had conjured up from

thin air of cyberspace." She didn't seem to realise that this is what banks already do today.

Only a woolly-minded reader of the *Guardian* would believe the tosh that banks can conjure up the money they lend from "the thin air of cyberspace."

**ALB**



## The Banking System

The origin of the banking system was the practice of depositing money for safe keeping with the goldsmiths and paying them for this service. The goldsmiths subsequently adopted the practice of paying interest to the depositor, and they re-lent the money at a higher rate of interest to a borrower. This was only an indirect way of the depositor himself lending his money at interest to the borrower. Whether the goldsmith acted as intermediary or whether the lending was done directly the general effect was the same, i.e., the owner of the money (representing a command over goods) was lending it to a borrower, who would thus, for a specified time, have at his disposal the means of buying goods. It was not an act of "creating" goods or values, but only of lending them, the banks being intermediaries between lenders and borrowers.

Fundamentally, the same process underlies the modern

banking and credit system. People who deposit cash and cheques in the banks are, in effect, placing at the disposal of the banks a command over goods, expressed as a certain sum of money. The banks pay to the depositor a fluctuating rate of interest on most of the deposits, and place the deposits at the disposal of other persons and companies who wish to borrow. Again, it is, in effect, a process of transferring the command over goods from the saving section to the borrowing section. As the banks need security for their loans to industry the borrower in fact (or in effect) pledges his factory, his stock-in-trade, etc. The bank is just like a pawnbroker, except that the bank largely works on borrowed money. The banks are intermediaries between one set of property owners and another set. The borrowers pay interest to the banks, who pay a smaller or no interest to the lenders. The whole of the interest comes ultimately out of the productive process.

(*Socialist Standard*, May 1933)

**Some of the quotes used by credit creationists to support their view are not genuine but have been fabricated at some point by some dishonest currency crank and then naively accepted and spread by others. Two in particular are all over the internet. One is from Josiah Stamp, who was a director of the Bank of England from 1928 till his death in 1940, the other from Reginald McKenna, who was Chancellor of the Exchequer from 1915-1916 and chairman of Midland Bank (now HSBC) from 1919 till his death in 1943. We present the evidence that these quotes are fakes.**

#### **Josiah Stamp**

*“Banking was conceived in iniquity and was born in sin. The Bankers own the Earth. Take it away from them, but leave them the power to create deposits, and with the flick of a pen they will create enough deposits to buy it back again. However, take it away from them, and all the fortunes like mine will disappear, and they ought to disappear, for this world would be a happier and better world to live in. But if you wish to remain slaves of the Bankers and pay for the cost of your own slavery, let them continue to create deposits.”*

*Sir Josiah Stamp, President of the Bank of England in the 1920s, the second richest man in Britain.”* ([http://www.moneyreformparty.org.uk/money/about\\_money/quotes.php](http://www.moneyreformparty.org.uk/money/about_money/quotes.php)) In his book *Debt, The First 5000 Years* David Graeber says (p. 344) that “it seems extremely unlikely that Lord Stamp ever really said this, but the passage has been cited endlessly—in fact, it’s probably the single most often-quoted passage by critics of the modern banking system.” In a footnote (pp. 448-9) he goes into more detail: “Said to have been given at a talk at the University of Texas in 1927, but in fact, while the passage is endlessly cited in recent books and especially on the internet, it cannot be attested to before roughly 1975. The first two lines appear to actually derive from a British investment advisor named L.L.B. Angas in 1937: The modern

A DVD set cover for 'The Magic To Do' featuring a portrait of Josiah Stamp. The cover is dark with a yellow 'DVD SET' label and a small circular logo.

*and was born in sin. The Bankers own the Earth. Take it away from them, but leave them the power to create deposits, and with the flick of a pen they will create enough deposits to buy it back again. However, take it away from them, and all the fortunes like mine will disappear, and they ought to disappear, for this world would be a happier and better world to live in. But if you wish to remain slaves of the Bankers and pay for the cost of your own slavery,*

are probably later inventions—and Lord Stamp never suggested anything like this in his published writings.”

#### **Reginald McKenna**

*“I am afraid the ordinary citizen will not like to be told that the banks can and do create money. And they who control the credit of the nation direct the policy of Governments and hold in the hollow of their hand the destiny of the people.”* Reginald McKenna, as Chairman of the Midland Bank, addressing stockholders in 1924. (same source)

The first sentence is from McKenna’s report to Midland Bank shareholders but in 1925, not 1924. It can be found in *Postwar Banking Policy*, a collection of McKenna’s speeches and articles published in 1928. The last sentence does not appear anywhere in the book. So, where did it come from?

The earliest reference to it on the internet seems to be a facsimile of a page from an Australian newspaper reporting a speech by Alexander Amess who was standing on a Social Credit ticket in the Australian Federal elections of September 1940. He is reported as quoting the passage and saying that McKenna said it in 1937 (see <http://trove.nla.gov.au/ndp/del/article/75036747>). This identifies the currency crank group that fabricated the quote and indicates the probable time it was done. If someone was prepared to plough through Social Credit literature of the time no doubt they would find the original source. Another indication that the passage is a fabrication is that in *Postwar Banking Policy* McKenna expressed the exactly opposite view: that the government controlled what banks could do, not that banks controlled the government. In a lecture on

Banking system manufactures money out of nothing. The process is perhaps the most astounding piece of sleight of hand that was ever invented. Banks can in fact inflate, mint and unmint the modern ledger-entry currency’ (Angas, *Slump Ahead in Bonds*, New York, 1937: 20-21). The other parts of the quote

## **Money Bugs**

William Jennings Bryan was what we call today a “money bug.” He believed that a certain change in the monetary system would be enough to bring prosperity to the vast majority and, at least, security to all. But, since money is merely a measure of value, we know full well that a mere change in its form would not add more value to that which it measures, any more than the shortening or lengthening of a yardstick would add length or quality to the cloth it measures.

This is the stumbling block of the majority of money reformers; they believe that a change in the measuring of value, a change in the money system, will bring about an alteration in the wealth it measures and changes in the possession of wealth.

...[N]o mere change in the means of measuring or medium of exchanging values will create new values or cause existing values to circulate more freely.

(John Keracher, *Economics for Beginners*, 1935, <http://www.marxists.org/archive/keracher/1935/economics-for-beginners.htm>)

‘Banking’ he gave on 11 December 1927 he spoke of “the total volume of money, the ultimate control of which lay with the central bank of issue, not with the ordinary trading banks” and went on to say that “the Bank of England was, in fact, controlled by the Treasury, which was, in fact, controlled by the House of Commons as representative of the people of this country.”

Although he advanced the controversial view that banks “create” money, he did not think that they did so out of thin air. The accurate version of what he told Midland Bank shareholders in 1925 (not 1924) is: “I am afraid the ordinary citizen will not like to be told that the banks and the Bank of England can create or destroy money. We are in the habit of thinking of money as wealth, as indeed it is in the hands of the individual who owns it, wealth in the most liquid form, and we don’t like to hear that some private institution can create it at pleasure. It conjures up a picture of an autocratic and irresponsible body which by some black art of its own contriving can increase or diminish wealth, and presumably make a great deal of profit in the process. But I need hardly say nothing of the sort happens.”

# A FUTURE THAT WORKS?

**THE MARKET** system works. But not for us. It works for the handful of people who own industry or land. Most of them are doing well and getting richer. For them, the present system works, through our hard work.

For us, the workers, it doesn't. The real value of wages has shrunk. Housing is becoming more unaffordable for many, rents are rising and benefits are being cut. Unemployment is at staggering proportions, especially among young people.

The truth is being revealed across the world: that the system is run in the interests of those who own it. For governments, repaying debts to those who got wealthy from our work is more important than us receiving education or health care.

For us, the future won't work so long as we depend on an economy based on the market with the private or state ownership of the means of living.

In our workplaces we co-operate. We don't charge our colleagues for our time: we work together. It's just that we work together for our employers. If we owned the land and all the places of work ourselves, we could work together to make all the things we need, without buying and selling and without an employing class.

The alternative is voting for parties that support the market system: parties that inevitably have to accept the existence of poverty and unemployment.

While we build a movement to bring about a better future, it's important that we use trade unions to defend ourselves and get the best deal we possibly can under the present system. We must ensure democratic control of trade unions, and not follow charlatans and adventurers to glorious defeat. We should rely on ourselves, not leaders.

If we want to transcend the

defensive position forced upon us by the pressures of the profit system then a vision beyond capitalism has to be on the agenda.

That future we call Socialism, a future where we would have common and democratic ownership of the resources of the world. A future that will work if the majority of us want it and are prepared to work for it using democratic struggle to create a world of common wealth.

- leaflet for TUC demonstration in London on 20 October. For copies to distribute, write to the Socialist Party, 52 Clapham High Street, London SW4 7UN

## from page 5

labour relationship, whether or not they agree with that it is. But this is not the only feature of capitalism; it is also a market economy where goods are produced to be sold. In fact, capitalism can be defined as a system where all the elements of production, including in particular the human ability to work (labour power), are bought and sold, which only becomes general once the direct producers have been separated from the means of production, whether land or machines. This didn't come about suddenly in one go; it developed over time. Historically, the world market – as an inter-national market – first came into being in the 16<sup>th</sup> century and then market relations spread internally within countries producing for it as there were put change the more they got involved in it. Those in control of political power in these countries faced a choice: either to try to resist the changes or to encourage them. The "European elites" were divided over the issue. Those in favour of change wanted to remove all the barriers to unincumbered property ownership and production for the market inherited from feudalism. They were, or represented, the up-and-coming bourgeoisie. In the end, they got their way, especially after they won control of political power in the English Revolution in the 17<sup>th</sup> century and the American and French Revolutions in the 18<sup>th</sup> century. Whether or not they envisaged a system of production based on wage-labour eventually emerging, they were consciously aiming at the spread of market relations and of the concept of the individual free to enter into market relations with other individuals. See, for instance, C. P. Macpherson's *The Theory of Possessive Individualism*, Karl Polyani's *The Great Transformation* and John Gray's more recent *False Dawn*. Adam Smith, the father of "Political Economy", writing in 1776, held a labour theory of value and already recognised landless and machine-less wage workers as one of the three economic classes, alongside landowners and profit-seeking tenant farmers, involved in the market economy which it advocated should be extended.

3. Are we still "wage slaves" or are we becoming "debt

peons"? This is the basic disagreement between David Graeber and us. A "debt peon" would be somebody forced to work to repay a debt, normally to their employer or landlord. This has existed historically under non-industrial conditions and still survives in some parts of the world though declining. Modern advocates of this view see people in the industrialised and urbanised parts of the world as being essentially in the same situation as they have to work to repay loans with interest to the banks who have lent them money. In other words, that they are being exploited by the banks and bankers. Is this an accurate, empirical analysis? We don't think so.

For a start, even if you are in debt (and not everybody is, by any means) you are still obliged unless you are a rich investor (which most people aren't) to work for a living by selling your ability to work for a wage or salary. This is still the basic situation for most people, including those in debt. The disposable income of those in debt may be reduced by having to repay a bank debt with interest, but the main source of that income is still wages.

David Graeber says that "a far larger percentage of Wall Street's profits is now derived from the financial sector than from industry or commerce" and asks "where does that profit really come from?" Good question. It won't be from the interest paid by workers on money they have borrowed. Some firms in the FIRE sector will be making a profit out of this, but most of the profits of this sector will have come from elsewhere. Since profits are a claim on wealth, and since wealth can only be produced by humans applying their physical and mental energies to materials that originally came from nature, this source can only be the labour of those working in the productive sector of the economy. In other words, out of the surplus value produced by wage-labour. (In fact even the interest paid by workers out of their wages will come out of their share of newly-produced wealth). So, the extraction of surplus value from productive wage-labour is still the basis of capitalism and the ultimate source of all profits.

- Editors.

# After Iraq, Iran?

*CND is deluding itself if it thinks that a capitalism free from nuclear weapons is possible.*

**C**ND are in support of a Nuclear Weapons-Free Middle East and the future UN conference on this matter. On 13 October they will be holding a special International Conference – ‘Building towards a Nuclear Weapons-Free Middle East: Civil Society input for a new Helsinki Process’. At which Professor Abbas Edalat of the Campaign Against Sanctions and Military Intervention in Iran (CASMII) has been invited.

Professor Edalat was the main speaker at a CND public meeting at Conway Hall in Central London in July on the question; ‘Iran – Why is the West preparing it’s public for a new war in the Middle East?’ His organisation, CASMII, is said to support the Iranian Reform Movement which was in power in Tehran 1997-2005 and has a bourgeois ‘middle class’ base. But where do Professor Edalat and CND stand in relation to capitalism and war?

Edalat began with the quote “the road to Tehran goes via Baghdad” which is that regime change is the goal of the West, that oil resources are the reason but the pretext is that Iran’s nuclear programme is a threat. He identified the USA and Israel as the real threat in the region. It appears Edalat understands that wars in capitalism are about competition over sources of energy. Even capitalist economist Keynes recognised that “the competitive struggle for markets” was the major factor in “the economic causes of war”.

Edalat spoke of the economic sanctions against Iran which he said hit the “pro-western middle classes” whereas the “poor and lower classes” are looked after by handouts and subsidies from the state. It is understandable that the leftist exile group Hands Off the People of Iran criticise CASMII for being opposed to the interests of “workers, progressives and democrats”. It is interesting that Hands Off were excluded from the Stop the War Coalition, and that Stop the War have adopted CASMII’s resolution on Iran.

Edalat pointed out that Iran’s breach of the Non-Proliferation Treaty was “minor” in that it was a failure to disclose a single receipt of low emission uranium purchased from China. He concluded that military intervention in Iran would mean that the Iranian people would lose out, there would be an oil price rise, disastrous effects for the world economy, and that there was an urgent need to debunk the western media discourse about Iran.

CND are developing a campaign against the threat of war against Iran. CND opposed UK involvement in the nuclear-armed NATO wars of ‘liberal interventionism’ such as Yugoslavia, Afghanistan, Iraq, and Libya. This attitude raises the question: do CND support some wars within capitalism? What about UK intervention in the civil war in Sierra Leone? Kate Hudson at CND identifies that US intervention in the Middle East is a “brazen pursuit of national interests”. In fact these are western capitalist interests.

Can international co-operation take place within capitalism? The 1946 Baruch Plan initiated by the US for all nuclear fuel production to be under the control of an

international agency was not realised because of USSR opposition. CND have identified that the “preventative military intervention” against Iran for not meeting NPT obligations is a smokescreen for US desires for regime change in Iran. They see the parallels with the build-up to the Iraq War. Kate Hudson at CND believes that “concerted, transparent and productive diplomatic negotiations” will lead to a solution. Within capitalism this really seems quite unlikely. Western capitalist interests want regime change in Iran in order to open the country up to free market capitalism. Edalat would like a liberal bourgeois capitalist Iran in the western mould.

In the pursuit of the interests of the capitalist class, the state will in Brecht’s note to *Mother Courage*, “make war as a continuation of business by other means” which is



*Clockwise: Professor Abbas Edalat, ICAN’s logo, a scene from The War Game*

a variation on Clausewitz’s “War is the continuation of politics by other means”. Interestingly Sun Tzu 6<sup>th</sup> century BC book *The Art of War* is used today in western capitalism as a handbook for corporate strategy in achieving profits.

War existed in the class societies before capitalism where they were caused by absolute shortages and scarcities. In capitalism there are artificial scarcities, and over production which cause competitive accumulation and leads to war. War in capitalism is an inevitable result of the quest for profit and competition between capitalist interests for markets, raw materials, energy supplies, trade routes, and exploitable peoples. The cause of wars in the Middle East have been the oil-importing countries’ need to have dependable oil supplies.

Recently the International Campaign to Abolish Nuclear Weapons (ICAN) published a study which shows the link between capitalism and war by identifying 322 banks and financial institutions that are funding nuclear weapons development and manufacture such as Barclays, Lloyd’s, HSBC, and RBS.

CND, Stop the War, ICAN, and CASMII do not identify capitalism as the cause of war but believe certain types of wars and weapons should be opposed and that reforms to capitalism by abolishing nuclear weapons will make the world a nicer place in which to do business and make profits. It is ironic that CND used footage from the film *The War Game* in its recruitment campaign when the footage was of the Allied ‘conventional’ bombing of Dresden which was more destructive in terms of fatalities than the atom bomb at Nagasaki.

All wars in capitalism are in the interests of the capitalist class and the working class are the victims and cannon fodder of capitalist war. The abolition of global capitalism and the transformation to world socialism will remove the causes of war.

**STEVE CLAYTON**

# Che and violence

DIRTY MARKET are a theatre collective based in South-east London who have adopted bricolage techniques for their productions, and their most recent *Be Good Revolutionaries* took place at the Oval House Theatre in Kennington, London. The sources for *Be Good Revolutionaries* are the last letter of Che Guevara to his children, *Crime on Goat Island* by Ugo Betti, and Brecht's *Mother Courage and Her Children*.

*Be Good Revolutionaries* is set in the claustrophobic world of a jungle hideaway in Latin America in 1967 where a rebel leaders wife Anna (a formidable performance by Juliet Prague), and her two daughters and one son live. Into this world comes a stranger who appears to know the long-lost leader. The stranger is a 'Martin Guerre' character who intrudes like in the Betti novel, but his presence is disastrous like in a Roman Polanski film.

*Be Good Revolutionaries* is reminiscent of Brecht's *Mother Courage* where the devastating effects of war are portrayed, and Brecht points out the utter blindness and futility of those hoping to profit by it. Dirty Market have adopted Brechtian techniques for this production, demonstrating the 'estrangement' effect by using singing and music to interrupt or comment on the action. This is memorably performed by musician-singer Rebecca Thorn.

The production is noteworthy for the design by Susan Sowerby of the Mexican 'los dias de los muertos' artwork, 'ofrenda' shrines, skeletons and 'calavera catrinas' which give the performance the necessary 'latin' American ambience. This is augmented by the choreographed movements of the

children, a soundtrack of flutes, Rebecca Thorn's accordion, gunfire and helicopter rotors

which bring to mind Coppola's *Apocalypse*

Now and Christopher Bruce's modern ballet *Ghost Dances*

which featured the Chilean folk of Inti Illimani. *Be Good Revolutionaries* is evocative of the music of songs like the Cuban 'Guantanamera' and Victor Jara's Chilean anthem 'Venceremos'.

Che Guevara's last letter to his children contained fatherly advice in the shape of 'Grow up into good revolutionaries', 'Remember that it is the Revolution which is important' and a reminder that he was 'a man who acted as he thought best and who has been absolutely faithful to his convictions'. Since the

1960's, the famous Che image has been thoroughly 'marketed' and exploited by western capitalism. Che was captured and executed in 1967 in Bolivia where he was attempting to export the Cuban revolution, and conduct a Maoist 'protracted peoples war'. This play includes the line 'People have to die for change' and a glorification of 'revolution'. Such romanticising of violent insurrection, and armed struggle is fundamental to Trotskyists and Leninists but all minority violent revolutions devour their own children.

Although Cuba is very popular with the Left, it is a one-party state, there are political prisoners, no freedom of the press, no right to strike, price controls, goods rationing, a constitution based on the USSR, a planned economy in the USSR 'state capitalist' mode, and essentially there is 'commodity nature of production', and therefore is *not* a socialist society.



## Capturing The Smoke

Another London –  
International Photographers  
Capture City Life 1930-1980  
Tate Britain

THE 180 photographs in the Another London exhibition are selected from the collection of 1,400 photographs of the Eric and Louise Franck London Collection. The 41 photographers in the exhibition were all from abroad, visiting London as tourists, or as part of their employment, or were refugees from Nazism and eventually settled permanently in Britain. The photographs are evidence of a rich tapestry of life in 'The Smoke' during the twentieth century.

'Class' is a significant factor portrayed in these photographs from Brandt's Housewife – Bethnal Green 1937 and Susditzky's East End Street 1934 to the series of photographs of the working class in Brick Lane, Spitalfields 1976-78 by Luskacova. People in the Knave of Clubs Pub, Club Row 1976 is revealing in its depiction of East Enders sense of camaraderie although at first glance the photograph could be from the 1930s. The various changes in capitalism in Britain in the intervening 40 years had done little to change the economic status of working class in the East End.

Photographers also captured the ruling class at work and play in Hoppe's 1937 London Stock Exchange – Typical Young Businessman to the military in The Queen's Guards 1960 by Erwitt. The photograph of the 1959 Queen Charlotte's Ball by Cartier-Bresson is of the Débutante's Ball where daughters of the Aristocracy 'came out' at the end of the 'Season'. 'Debs' were presented to the Queen at Buckingham Palace right up to 1958 when it was deemed an archaic social practice. The 'Debs Ball' ended in 1997 but since 2009 has been re-established for the daughters of wealthy capitalists as well as the Aristocracy.

Erwitt's photographs of British Railways Logo on Train and Male Passengers in 1st Class Compartment (1950's) highlight the fact that although the railway was nationalised in 1948 BR still operated a 'class system' of compartments for first, second and third class passengers. Third Class was abolished in 1956, and second class was only re-designated as Standard Class in 1985.

There is an evocative photograph by Willy Ronis of Gaston Berlemon's Pub, The French House, Soho 1955 which reeks of tobacco smoke, booze and bohemianism (well-known poets/artists and drinkers Dylan Thomas, Brendan Behan, Francis Bacon, and Malcolm Lowry frequented the hostelry). The iconic photograph of the Beat Girl with Kitten 1960 by Bruce Davidson conjures up the mysteries and delights of youth on the cusp of adventure at the beginning of the 'swinging sixties'.

Neil Kenlock's photographs of the Afro-Caribbean community illuminate a radical political side to the black British experience: Demo Brixton Library 1972 shows placards stating 'All Police are Pigs' and 'Off the Pigs' while the 1970 Black Panther School Bags portrays just that.

Davidson's Conductress 1960 epitomises the period covered in the exhibition. This world of the sounds of 'slam door' trains, Solari departure boards at rail stations, Routemaster buses, and Gibson ticket machines is gone forever.

**STEVE CLAYTON**



### Loose talk about thin air

THE PRE-WW2 currency crank, Major Douglas, used to talk about banks being able to create credit by a mere 'stroke of the pen'. Currency cranks have been comforted in this belief by some modern writers on money and banking saying that banks can create money out of nothing. What the cranks don't realise is that these writers mean something quite different.

One quote they have trumpeted all over the internet is from leading Financial Times journalist Martin Wolf who wrote in 2010:

'The essence of the contemporary monetary system is creation of money, out of nothing, by private banks' often foolish lending.' (10 November)

US economist, Paul Krugman objects to such talk:

'As I read various stuff on banking ... I often see the view that banks can create credit out of thin air ... it should be obvious that it's all wrong. First of all, any individual bank does, in fact, have to lend out the money it receives in deposits. Bank loan officers can't just issue checks out of thin air; like employees of any financial intermediary, they must buy assets with funds they have on hand.' (<http://krugman.blogs.nytimes.com/2012/03/30/banking-mysticism-continued/>)

Wolf will not believe that an individual bank on its own can create money out of nothing to lend. The theory he was expressing somewhat sloppily is that the whole banking system (including central banks, such as in Britain the Bank of England, in the US the Fed) can.

Today all banks (which includes building societies) have to hold reserves at the central bank which are used to settle payments between them at the end of the working day. The argument is that this means that a bank can make a loan without first having the money. But not for long: they have to find it by the end of the day (literally). In a polemic against Krugman, another US economist, Scott Fullweiler explains:

'But, let's also assume that Bank A had no reserve balances on hand when it made the loan. How does it transfer reserve balances to Bank B? As it turns out, the Fed provides an overdraft for any payment sent in which a bank's account goes below zero – that is, the payment is never rejected when it occurs on the Fed's books. The Fed does this as part of its legal obligation to promote stability in the payments system. The rub is that the Fed requires Bank A to clear this overdraft by the end of the day, which Bank A will most likely do in the money markets (such as the federal funds market, often via pre-established lines of credit). So, on the liability/equity side for Bank A, we end with '+borrowings' in the money market to clear the overdraft.' (<http://new-economicperspectives.org/2012/04/krugmans-flashing-neon-sign.html>)

This invalidates neither the view that all loans have to be covered by deposits nor that banks are financial intermediaries, borrowing money and then lending it at a higher rate of interest (as Fullweiler puts it, banks aim 'to earn more on assets than is paid on liabilities'). What this theory is aimed at refuting is the view that the central bank can, under existing arrangements, control bank lending, as indeed it can't (for other reasons too). But to express this by saying that banks have the power to create money to lend 'out of nothing' is highly misleading and a gift to the currency cranks.

What it does not support is the view that an individual bank can make a loan with no funding by a mere computer entry and then charge interest on it, a common currency crank fallacy.

## On the Right-Wing

**Hate.** By Matthew Collins, Biteback Publishing, 2011. £14.99.



Subtitled 'My Life in the British Far Right' this is the story of a former member of the National Front in the late 80s and early 90s who then became close to the leadership of the British National Party in

the days when it was more openly Nazi than it is now. Collins also later became a fringe participant in the violent Combat 18 group of Nazis and is in a similar mould to other former far-right activists like Ray Hill and Tim Hepple who became 'moles' for the anti-fascists associated with *Searchlight* magazine.

It is an account that is frightening but entertaining in equal measure, giving an insight into the mindset that drives someone from a white, working class background to be involved in fascist politics. It also gives an insight into some of the violent tactics and internal feuding that have characterised the far right in Britain for decades.

The leaders of the so-called 'master race' are clearly shown up to be the misguided and psychologically unbalanced individuals many of them are. Referring to a particular sortee by Combat 18 thugs in Brick Lane, Collins comments: 'I looked along our line at the drug dealers, the gangsters, the football hooligans and wife beaters who believed in their tiny minds that they were going to save the white race from drug dealers, wife beaters, gangsters, Jews, blacks and Asians', and this pretty much sums it up.

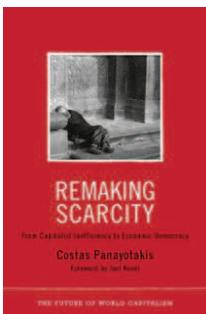
The later chapters chronicle Collins' movement away from racist politics over time, his particular function as a 'mole' for *Searchlight* and the police interest in his activities, though these don't perhaps have the depth they might have. The foot soldiers (and 'political soldiers') of the BNP, NF, etc have long been considered a potential threat to public order and are therefore closely monitored – and sometimes infiltrated – by the state apparatus, often acting on information gathered by the anti-fascists on the left. This has created much controversy in recent times about the link between the two and Collins doesn't perhaps address this as clearly as he might.

There are also a few factual errors here and there but nevertheless this is a book worth reading. This is especially so in a political climate where the BNP (despite some recent internal strife) has been garnering significant numbers of working class votes from the politically disaffected since the skinheads, swastikas and jackboots have been less visible to the public eye.

**DAP**

## Economics

**Remaking Scarcity – From Capitalist Inefficiency to Economic Democracy.** By Costas Panayotakis, Pluto Press.



The subject of economics is commonly understood as being the problem of unlimited wants in the face of finite resources. Likewise socialism, communism and common ownership are seen as arising out of conditions which bring about the elimination of scarcity. Panayotakis, who describes himself as a "recovering economist", frames the issue a little differently. For him scarcity itself is not necessarily the problem but rather it is the "the undemocratic determination of the configuration of scarcity that people live under" that leads to the social-ills of today.

This book is in effect in two halves, the first is a well written critique of many of the underlying assumptions that make up neo-classical economics and the second explores what Panayotakis calls "economic democracy" and compares two models for the operation of such a society. Panayotakis uses economic democracy "the principle that all citizens should have an equal voice over the goals and the operation of the economic system" as a yardstick to measure how successful an social system is. According to this measure and as would be expected, capitalism fares badly.

David Schweickart's conception of economic democracy is also put up against this measuring stick. Schweickart sees his system as achieving a balance between democracy, planning, and markets. Workers have democratic control of the companies they work for, firms trade between themselves and

the general public and should the smooth functioning of this worker ran market economy be disrupted the State will step in to ensure that all is returned to a happy state of bliss. How close this proposal is to the current economic system is striking. Schweickart does not seem to realise that the problem with the market economy is not so much that the workers do not have democratic control of the means of production but that market forces ultimately control any decisions that have to be made, "accumulate or die" will remain the mantra until the competitive struggle for profits is removed. Panayotakis seems aware of these criticisms but does not really drive the point home.

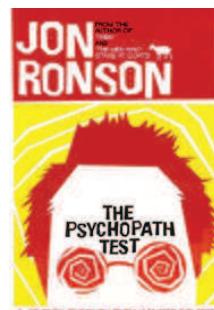
To contrast with this "market-socialist" blueprint Panayotakis offers up the schemes of Michael Albert and Robin Hahnel. Commonly known as "Parecon" this system of participatory economics sees productive decisions co-ordinated by a network of workplace, neighbourhood, and facilitation councils which communicate amongst each other until pricing and production levels are agreed upon. However, in this system competition between enterprises is not eliminated, the law of value still operates, enterprises that fail to compete would go under and so the tension between profit and wages remains. Albert and Hahnel are trying to find political solutions to what is essentially an economic problem.

What is missing from this book is the argument for the type of classless, stateless and non-market system of free access which we would call world socialism. Economic democracy is as much a problem of economics as it is of democracy. A truly democratic economy cannot be realised until the economy is governed directly by human need.

**DJP**

## Lists and Drugs

**The Psychopath Test.** By Jon Ronson, Picador. £8.99.



This is a very funny book, but also a very sad and disturbing one. Its subtitle is 'A journey through the madness industry', which gives a good idea of how mental illness is a source

of status and profit for some who claim to treat it.

The Diagnostic and Statistical Manual of Mental Disorders (DSM) is published by the American Psychiatric Association (which makes \$5m a year from its sales), and supposedly provides a list of disorders and how to identify and classify them. But in the case of psychopathy (or sociopathy or anti-social personality disorder) nobody has any real idea as to what this condition comprises. A widely-used psychopathy checklist, provided by Bob Hare, contains points such as grandiose sense of self-worth, proneness to boredom, impulsivity and lack of remorse. Using these and similar tests, maybe half the

population can be viewed as having some mental illness, which is good news for the pharmaceutical companies that make the drugs which are claimed to treat such illnesses. And to illustrate the kind of nonsense found in such circles, one nineteenth-century American doctor identified a mental disorder called drapetomania in some slaves (meaning a desire to escape from slavery).

As for actually treating psychopathy, nobody really seems to have a clue, though there have been many attempts (including Nude Psychotherapy), and many criminal psychopaths reoffend quite soon after being released. Too often 'treatment' just consists of detaining people.

But is it really just a matter of a few anti-social individuals? Hare claims that psychopaths are responsible for much of what is wrong with society, with many being in top positions in business. For what some see as psychopathic traits, others will view as being

distinctive of good leadership. Some chief executives of companies genuinely seem to enjoy sacking workers, especially if it leads to the share price going up. Nobody is arguing that more than a few percent of bosses are psychopaths but, as Ronson says, 'I wondered if sometimes the difference between a psychopath in Broadmoor and a psychopath on Wall Street was the luck of being born into a stable, rich family.'

And if psychiatrists find it hard to diagnose psychopathy and other mental illnesses, it can be very difficult to convince people that you are actually sane. Ronson recounts an experiment run by an American psychologist called David Rosenhan: eight people presented themselves to mental hospitals, saying they had a voice in their head but otherwise acting completely normally. All were diagnosed with schizophrenia or manic depression, were admitted and were kept in for an average of nineteen days, despite their behaviour from their time of admission being completely normal. But then psychiatrists have little idea as to how to distinguish 'normal' from 'ill'.

We should make it clear that, while capitalism may benefit from having executives who are psychopathic, the problem lies not with the dysfunctional bosses but with a sick system.

**PB**

## socialist party dvd



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## Giggly Walking CCTV Cameras

MAKING A hasty, ill-informed judgement about someone you don't know is easy, thanks to the internet. You can post it on their forum thread or facebook

update, laugh, then hide behind your username and the 'log off' option. It's not quite as straightforward as that in real life, as those taking part in *The Audience* (Channel 4) find out. In this show, a volunteer has opened up their life to the scrutiny of fifty strangers and a film crew. The volunteer has "a life-changing decision to make", and will seek the advice of the others who literally follow him around for a week.

The first episode's lamb-to-the-slaughter is Ian Wainwright who, being a farmer, has probably slaughtered a few lambs himself. Nice guy Ian slaves away on the farm owned by his two septuagenarian uncles, who can't do much other than bark from their farmhouse chairs. Imposed guilt and family loyalty tie Ian to the long hours and little money. He knows he's trapped, and that he's not spending



enough time with his girlfriend. So, should he find a new life with her, as this means leaving his uncles to an uncertain future?

The crowd of fifty start out like giggly walking CCTV cameras. They follow Ian to the milking shed, then the fields, then they meet the rest of his family, firing questions and discussing him along the way. Their initial snap judgements on his situation give way to a realisation that it involves conflicting viewpoints, and then there are tears as the decision looms. Obviously, the programme-makers milk all this for its emotional capital, much like Ian milks his cows. He takes the advice to leave the farm, and the producers must have been rubbing their hands with glee when he rounds off the programme by proposing to his girlfriend.

Maybe some choices benefit from having other people patiently look into all the pros and cons to come up with some reasoned advice. But it's less likely that a situation will be improved by the manipulation and selective editing of a film crew. *The Audience* feeds on the fashionably alienated belief that if you have a problem, then the best way to get help is through a TV show.

**Mike Foster**

## Meetings

For full details of all our meetings and events see our Meetup site: <http://www.meetup.com/The-Socialist-Party-of-Great-Britain/>

## East Anglia

Saturday 13 October 2pm to 5pm  
**THE STORY OF CHANGE** (short film) and critique. Speaker: Stair Questions & Discussion  
Nelson Hotel (opposite train station), Prince of Wales Road, Norwich NR1 1DX (The meeting room is accessed through Costa Coffee Café and down the stairs. The room is towards the Prince of Wales Road end) All welcome.

## Glasgow

Wednesday 17 October 8.30pm  
A SOCIALIST LOOKS AT DARWIN  
Speaker: John Cumming  
Community Central Halls, 304 Maryhill Road, Glasgow G20 2YE

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## London

Sunday 21 October 10am to 5pm  
SOCIALIST PARTY AUTUMN DELEGATE MEETING  
Sunday 28 October 7pm.  
PROUDHON'S PIPEDREAM AND OTHER FAIRY TALES: SCIENTIFIC SOCIALISM VERSUS UTOPIAN SOCIALISM  
Speaker: Steve Clayton  
Socialist Party premises, 52 Clapham High St, SW4 7UN.

### SOCIALIST STANDARD INDEX FOR 2011

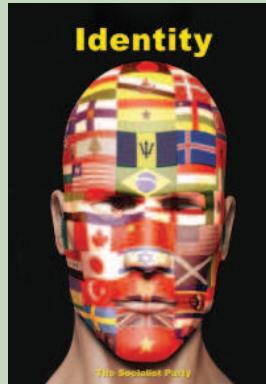
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### Questions and Answers About Socialism

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## Declaration of Principles

*This declaration is the basis of our organisation and, because it is also an important historical document dating from the formation of the party in 1904, its original language has been retained.*

### Object

**The establishment of a system of society based upon the common ownership and democratic control of the means and instruments for producing and distributing wealth by and in the interest of the whole community.**

### Declaration of Principles

The Socialist Party of Great Britain holds

1. That society as at present constituted is based upon the ownership of the means of living (i.e., land, factories, railways, etc.) by the capitalist or master class, and the consequent enslavement of the working class, by whose labour alone wealth is produced.

2. That in society, therefore, there is an antagonism of interests, manifesting itself as a class struggle between those who possess but do

not produce and those who produce but do not possess.

3. That this antagonism can be abolished only by the emancipation of the working class from the domination of the master class, by the conversion into the common property of society of the means of production and distribution, and their democratic control by the whole people.

4. That as in the order of social evolution the working class is the last class to achieve its freedom, the emancipation of the working class will involve the emancipation of all mankind, without distinction of race or sex.

5. That this emancipation must be the work of the working class itself.

6. That as the machinery of government, including the armed forces of the nation, exists only to conserve the monopoly by the capitalist class of the wealth taken from the workers, the working class must organize consciously and politically for the conquest of the powers of government, national and local, in order that this machinery, including these forces, may be

converted from an instrument of oppression into the agent of emancipation and the overthrow of privilege, aristocratic and plutocratic.

7. That as all political parties are but the expression of class interests, and as the interest of the working class is diametrically opposed to the interests of all sections of the master class, the party seeking working class emancipation must be hostile to every other party.

8. The Socialist Party of Great Britain, therefore, enters the field of political action determined to wage war against all other political parties, whether alleged labour or avowedly capitalist, and calls upon the members of the working class of this country to muster under its banner to the end that a speedy termination may be wrought to the system which deprives them of the fruits of their labour, and that poverty may give place to comfort, privilege to equality, and slavery to freedom.

## 50 Years Ago

### Betting becomes respectable

NOW THAT the new legalised betting shops are off to a good start and working class punters adorned with the dubious honour of a mantle of bourgeois respectability wherever they can lose their fair days pay in a more dignified way; it may be timely to compare the old back street hole-in-the-corner betting dens of Manchester with some of the present chromium plated outfits blossoming forth under the new regulations.

No longer is there any need to slip surreptitiously down a back alley or dodge P.C. 49 and the Black Maria in a frantic effort to play up one's pension or the rent on the elusive 2.30 winner; one awaits the result, jammed tight in a sweating mass of the unfortunate class of society, who never seem to tire of trying to gamble their way out of poverty, merely because they do not yet realise the cause of it.

Those repulsive conditions of working class punters, in grim contrast to the environment and atmosphere of Ascot lawns, etc., have given way, despite the hypocritical opposition of the men of God, to armchair betting in the main street betting shops, with loudspeaker commentaries, official receipts for all commissions, and rapid payment after results and the weigh in.

(...) [W]e point to the cause of all this gambling activity—the crazy profit system of production which divorces the producers from their products, leads them up the garden to chase shadows in State-organised lotteries, Football Pools and Bingo rackets, and the rest. This is typical of capitalism in 1962: but in a cooperative world of production for use, a money-less, class-less, trade-less community, gambling will cease simply because profits and losses, poverty, privilege and luxury will give way to the social equilibrium of production for use.

(from article by G. R. RUSSELL,  
*Socialist Standard*, October 1962)

## OBITUARY

### Cyril Brown

Manchester Branch are sorry to report the death in August of Comrade Cyril Brown, at the age of 79. Cyril was a latecomer to Socialism, having joined the Party in 2008. He was a regular attendee at Branch meetings, and we will miss his quiet, wise and always sensible counsel.

# ACTION REPLAY

### Pressure to Compete

LANCE ARMSTRONG was never actually caught taking performance-enhancing drugs. Rather, the cyclist simply gave up fighting the allegations that he had done so. Regardless of the truth of the situation, this latest development is a reminder of the role of drug-taking in many sports.

There were plenty of earlier examples, but large-scale taking of drugs to improve performance probably goes back at least to WWII, when many soldiers took amphetamines and anabolic steroids to boost their alertness and aggression. It did not really become an issue in sport until 1967, when the International Olympic Committee began to ban drugs, though full-scale testing only started in 1972. In the former state capitalist countries of Eastern Europe, doping had become a kind of standard procedure.

Of course, you might well ask the question, what is wrong with doping? And how does it differ from following an appropriate diet, consuming energy drinks, us-

ing the very latest kit and clothing that are intended to make you run faster, and so on? The official answer is that, quite apart from wanting sport to look 'clean' for spectators, many drugs are dangerous. Cycling, which as an extreme endurance sport is particularly open to doping, has seen a number of deaths from taking erythropoietin, which increases the red blood cell count. Anabolic steroids can have side effects such as acne and impotence in men, and hair loss in women. Some Paralympic athletes actually give themselves electric shocks to boost their blood pressure. However, even legal gym supplements that boost your protein may lead to kidney damage.

As for why athletes risk their health and even their lives by taking drugs, the answer lies in the money and the fame, not to mention the pressure from coaches and national associations. There is an ongoing race between those who organise doping and those who devise new testing procedures, with neither side able or willing to stand still. The priorities of a system based on competition speak for themselves. And, as so often, human intelligence and ingenuity are put to ultimately pointless uses.

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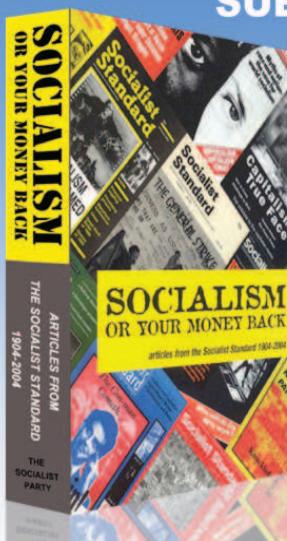
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# Voice from the Back

## A Suicidal System

A growing number of global and European health bodies are warning that the introduction and intensification of austerity measures has led to a sharp rise in mental health problems with suicide rates, alcohol abuse and requests for anti-depressants increasing as people struggle with the psychological cost of living through a European-wide recession. 'No one should be surprised that factors such as unemployment, debt and relationship breakdowns can cause bouts of mental illness and may push people who are already vulnerable to take their own lives,' Richard Colwill, of the British mental health charity Sane, told CNBC. 'There does appear to be a connection between unemployment rates and suicide for example,' he said, referring to a recent study in the British Medical Journal that stated that more than 1,000 people in the U.K. may have killed themselves because of the impacts of the recession' (CNBC, 4 September). Capitalism not only exploits and degrades members of the working class it can often lead them to suicide.

## Double Standards

One of the constant themes pursued by the owning class is that workers should be proud of 'their' country and if necessary from time to time take part in wars to protect it. However a recent example of this patriotism not necessarily extending to the owning class was recently revealed. France's richest man Bernard Arnault (reputed to be worth £32 billion) has applied for Belgian citizenship. 'He says the switch is for personal reasons. But few doubt that the 'personal reasons' amount to a desire to insulate his wealth from the punitive taxes being threatened by Francois Hollande, France's new Socialist president. These

taxes include a promised 75 per cent super-levy on annual incomes over 1 million euros' (Times, 11 September). When it comes to protecting their immense wealth the owning class have little time for patriotism.

## The Profit Motive In Action

It is now two years since the horrific explosion that led to the deaths of 11 oil



Deepwater: toxic slick you could see from space

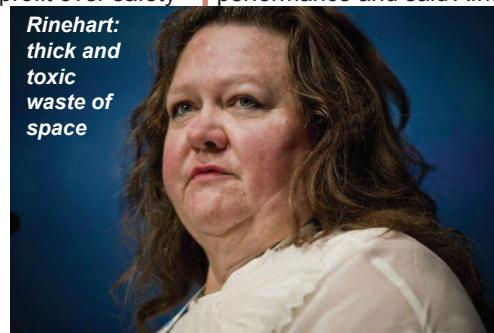
rig workers in the Gulf of Mexico and the largest oil spill in US history but it is still being fought over in US courts. 'The Department of Justice filed a sharply worded brief with a court in New Orleans yesterday that

accused BP of systematic management failures and a 'corporate-driven, profit over safety' culture' (Times, 6 September). There is a lot at stake in this legal battle. If the events of the oil spill are judged to be an accident BP could be fined £4.5 billion but if its employees are found guilty of gross negligence BP could be fined £21 billion, followed by almost unlimited punitive damages. Behind the niceties of the legal struggle one thing should be apparent though. Every company inside capitalism has a 'corporate-driven, profit over safety' culture.

## This Sporting Life

Sport according to most dictionaries is usually defined as 'to amuse, recreate, to take one's pleasure', but we live in capitalism and it should probably be more accurately defined as a 'business opportunity'. When Andy Murray, the tennis player won a tournament in New York the press and TV speculated on how much

Rinehart: thick and toxic waste of space



to work for \$2 a day should be an inspiration' (BBC News, 5 September). The news that a useless parasite such as Rinehart

has an income of £393 a second should inspire workers throughout the world to get rid of the capitalist system.

## FREE LUNCH

